



Enterprise Fund of the State of Oregon

Department of Energy
Small Scale Energy Loan Program

Financial Statements
(Together with Independent Auditors Report)

Year Ended June 30, 2023

Janine Benner
Director

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INTRODUCTORY SECTION

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Oregon

Tina Kotek, Governor



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March 18, 2024

The Honorable Tina Kotek
Governor of the State of Oregon
State Capitol
Salem, OR 97310

Dear Governor Kotek,

We are pleased to submit the Annual Financial Report of the Oregon Department of Energy's Small Scale Energy Loan Program Funds (SELP), for the fiscal year ending June 30, 2023. The financial statements, included on pages 9 - 28, present only the enterprise activities of the agency. These activities are reported as a separate fund of the agency and an annual financial report is issued for these activities in accordance with the agency's Indentures of Trust.

The agency's management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. The objective of this report is to provide assurance that the financial statements are free of any material misstatements.

The Department has identified and is actively managing a forecasted deficit issue faced by the Enterprise Fund. The Department's 2021-2023 budget included General Fund to cover the Bond Debt service for the 2021 to 2023 Biennium. For the current FY 2023 that amount was \$1 million.

The Secretary of State Audits Division has audited the financial records, books of account, and transactions to the agency's Enterprise Fund for the years ending June 30, 2023. No findings were reported in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters as listed in the table of contents. The auditors used generally accepted government auditing standards in conducting the engagement. Their unmodified opinion on the Enterprise Fund financial statements is included in the Financial Section of this report.

Respectfully submitted,

Janine Benner
Director

FINANCIAL SECTION

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LaVonne Griffin-Valade Secretary of State
Cheryl Myers Deputy Secretary of State, Tribal Liaison
Kip Memmott Audits Director

Independent Auditor's Report

The Honorable Tina Kotek
Governor of Oregon

Janine Benner, Director
Oregon Department of Energy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Small Scale Energy Loan Program (SELP), as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the SELP, as of June 30, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Oregon Department of Energy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the SELP and do not purport to, and do not, present fairly the financial position of the State of Oregon or the Oregon Department of Energy, as of June 30, 2023, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and the disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Department of Energy's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the report. The other information comprises the Transmittal Letter but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issue our report dated March 12, 2024, on our consideration of the Oregon Department of Energy's (department) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon

March 12, 2024

STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF NET POSITION
June 30, 2023

ASSETS

Current Assets:

| | |
|---------------------------------------|-------------------|
| Cash and Cash Equivalents | \$ 1,985,146 |
| Cash and Cash Equivalents--Restricted | 3,089,921 |
| Securities Lending Collateral | 3,038 |
| Loans Receivable (Net) | 9,806,186 |
| Loan Interest Receivable | 300,474 |
| <i>Total Current Assets</i> | <u>15,184,765</u> |

Noncurrent Assets:

| | |
|---------------------------------------|-------------------|
| Cash and Cash Equivalents--Restricted | 2,273,052 |
| Loans Receivable (Net) | 72,235,475 |
| Net OPEB Asset | 815 |
| <i>Total Noncurrent Assets</i> | <u>74,509,341</u> |

Total Assets

\$ 89,694,106

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|---------------------|
| Bond Refunding | \$ 1,212,241 |
| Related to OPEB | 213 |
| Related to Pensions | 16,834 |
| Total Deferred Outflows of Resources | <u>\$ 1,229,288</u> |

LIABILITIES

Current Liabilities:

| | |
|--------------------------------------|-------------------|
| Accounts Payable | \$ 40 |
| Bond Interest Payable | 777,421 |
| Due to Other Funds/Agencies | 40,914 |
| Compensated Absences Payable | 19,988 |
| Unearned Revenue | 100,796 |
| Obligations under Securities Lending | 3,038 |
| Pension-Related Debt | 8,209 |
| Bonds Payable | 11,425,000 |
| <i>Total Current Liabilities</i> | <u>12,375,405</u> |

Noncurrent Liabilities:

| | |
|--|-------------------|
| Compensated Absences Payable | 11,243 |
| Borrower Deposit Liability | 2,273,052 |
| Other Postemployment Benefits Obligation (Total Liability) | 2,009 |
| Pension-Related Debt | 33,541 |
| Net Pension Liability | 52,131 |
| Bonds Payable | 76,071,320 |
| <i>Total Noncurrent Liabilities</i> | <u>78,443,296</u> |

Total Liabilities

\$ 90,818,701

DEFERRED INFLOWS OF RESOURCES

| | |
|--|-------------------|
| Bond Refunding | \$ 176,724 |
| Related to OPEB | 1,726 |
| Related to Pensions | 15,619 |
| Total Deferred Inflows of Resources | <u>\$ 194,069</u> |

NET POSITION (DEFICIT)

| | |
|-----------------------------|--------------------|
| Restricted for Debt Service | \$ 3,089,921 |
| Unrestricted (deficit) | (3,179,296) |
| TOTAL NET POSITION | <u>\$ (89,376)</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

| | |
|---|--------------------|
| OPERATING REVENUES | |
| Interest on Loans | \$ 3,775,616 |
| Other Fees and Charges | 7,905 |
| Miscellaneous Revenue | 49,428 |
| TOTAL OPERATING REVENUES | <u>3,832,949</u> |
| OPERATING EXPENSES | |
| Bond Interest | 2,511,544 |
| Bond Expenses | 17,078 |
| Salaries and Other Personal Services | 134,619 |
| Services and Supplies | 84,374 |
| TOTAL OPERATING EXPENSES | <u>2,747,615</u> |
| OPERATING INCOME (LOSS) | 1,085,334 |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest on Cash Balances | 166,540 |
| Interest Expense-Pension Related Debt | (2,922) |
| Transfer in From Oregon General Fund | 1,000,000 |
| CHANGE IN NET POSITION | <u>2,248,951</u> |
| NET POSITION - BEGINNING | <u>(2,338,327)</u> |
| NET POSITION (DEFICIT) - ENDING | <u>\$ (89,376)</u> |

The accompanying notes are an integral part of these financial statements

**STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Cash Received from Customers | \$ 7,673 |
| Cash Credited to Borrowers Deposit Liability | 66,809 |
| Cash Disbursed from Borrowers Deposit Liability | (895) |
| Cash Paid to Vendors for Goods and Services | (52,663) |
| Payments to Employees for Services | (131,269) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>(110,345)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|---------------------|
| Principal Paid on Bonds | (10,625,000) |
| Interest Paid on Bonds | (3,172,909) |
| Bond Issue Costs Paid | (17,078) |
| Transfer from General Fund HB 5202 | 1,000,000 |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | <u>(12,814,987)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|-------------------|
| Interest Received on Cash Balances | 166,091 |
| Loan Principal Repayments | 9,781,988 |
| Loan Interest Received | 3,781,822 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>13,729,901</u> |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | |
|--|---------------------|
| | 804,569 |
| CASH AND CASH EQUIVALENTS - BEGINNING | 6,543,550 |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 7,348,119</u> |

| | |
|--|---------------------|
| Cash and Cash Equivalents | 1,985,146 |
| Cash and Cash Equivalents--Restricted | 5,362,973 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 7,348,119</u> |

The accompanying notes are an integral part of these financial statements

Continued on next page...

**STATE OF OREGON
DEPARTMENT OF ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
STATEMENT OF CASH FLOWS (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

| | | |
|--|-----------|-------------------------|
| OPERATING INCOME (LOSS) | \$ | 1,085,334 |
| <i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i> | | |
| Bad Debt Expense - Other Income | | (49,211) |
| Interest Receipts Reported as Operating Revenue | | (3,781,822) |
| Amortization of Bond Premium and Discount | | (872,884) |
| Bond Interest Expense Reported as Operating Expense | | 3,172,909 |
| Bond Issuance Costs Reported as Operating Expense | | 17,078 |
| Pension-Related Debt Interest Reported as Operating Expense | | (2,922) |
| <i>(Increase)/Decrease in Assets:</i> | | |
| Loan Interest Receivable | | 48,358 |
| Securities Lending Collateral | | 34,993 |
| Net OPEB Asset | | (379) |
| <i>Increase/(Decrease) in Liabilities:</i> | | |
| Accounts Payable | | (4,930) |
| Bond Interest Payable | | (118,645) |
| Compensated Absences Payable | | 534 |
| Unearned Revenue | | (42,153) |
| Due to Other Funds/Agencies | | 36,193 |
| Borrower Deposits | | 65,914 |
| Pension-Related Debt | | (11,519) |
| Other Postemployment Benefits Obligation (Total Liability) | | (385) |
| Net Pension Liability | | 22,097 |
| Obligations under Security Lending | | (34,993) |
| <i>(Increase)/Decrease in Deferred Outflows of Resources</i> | | |
| Loss on Refunding | | 352,789 |
| Related to OPEB | | 74 |
| Related to Pensions | | 3,381 |
| <i>Increase/(Decrease) in Deferred Inflows of Resources</i> | | |
| Gain on Refunding | | (22,624) |
| Related to OPEB | | 298 |
| Related to Pensions | | (7,830) |
| TOTAL ADJUSTMENTS | | <u>(1,195,679)</u> |
| NET CASH PROVIDED (USED) BY OPERATIONS | \$ | <u>(110,345)</u> |

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
DEPARTMENT of ENERGY
SMALL SCALE ENERGY LOAN PROGRAM
ENTERPRISE FUND
Notes to the Financial Statements
JUNE 30, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Oregon Department of Energy Small Scale Energy Loan Program (SELP) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The Small Scale Energy Loan Program (SELP) was created through the adoption of Oregon Constitution Article XI-J by statewide vote in May 1980 and is implemented under the provisions of Oregon Revised Statutes Chapter 470. Article XI-J authorizes the sale of State General Obligation Bonds to finance fixed-rate, secured loans for the development of energy conservation, renewable energy and recycling projects within Oregon. SELP was designed as a self-supporting loan program that is part of the State of Oregon and the Department of Energy (Department).

The 2023 financial statements and footnotes include only the financial activity of the funds associated with the Small Scale Local Energy Loan Program.

B. Basis of Presentation

The accounts of the Department are organized on the basis of funds, each of which is a separate accounting entity. The funds utilize a separate set of self-balancing accounts to record the assets, liabilities, net position, revenues, and expenses of their program activities. SELP is classified as a proprietary fund. Proprietary funds contain two types of funds: Enterprise Funds and Internal Service Funds. SELP is accounted for as an Enterprise Fund. Enterprise funds are used for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods and services to the general public on a continuing basis is intended to be financed or recovered primarily through user charges. Enterprise fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liabilities are incurred. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these funds are included on the Statement of Net Position. Total net position is segregated into the categories of Restricted Net Position, and Unrestricted Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how SELP finances and meets the cash flow needs of its proprietary activities.

D. Budgetary Process

The Oregon Legislature approves budgets for a biennial period. Operating expenses are subject to budget limitation and bond related expenses are subject to administrative limitation. The Emergency Board of the Legislature approves any increase in the budget that may be necessary during the interim. Both types of limitation are funded from revenues of self-supporting activities and lapse at the end of the biennium. Budgets are adopted on a basis that differs from generally accepted accounting principles and financial reporting standards. For budgetary purposes, transactions related to the treatment of bond proceeds, loan disbursements and other operating revenues and expenditures are recorded on a cash basis and converted to the accrual basis for financial reporting purposes.

E. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash held in the State Treasury and cash on deposit outside the State Treasury. All SELP monies are held in the Oregon Short Term Fund (OSTF - demand accounts), a cash and investment pool that is available for use by all funds and local governments. The OSTF pool operates as a demand deposit account and funds held in the OSTF are considered cash equivalents.

F. Restricted Assets

Restricted cash and cash equivalents are restricted as to purpose and use by Article XI-J of the Oregon Constitution, Bond Indenture, and State statute. SELP's funds that are restricted pertain to bond debt service. Individual borrower reserve accounts have been established to meet certain loan requirements and the balances of these accounts as of June 30, 2023 were sufficient to meet all contractual agreements. Any cash on deposit with a fiscal agent is held on behalf of bondholders and is the result of unclaimed monies from matured bonds and coupons. SELP's policy for applying resources for payment of expense is to first use funds that are restricted to pay bond debt service and then use non-restricted resources to pay for program-related expense.

G. Receivables

Receivables reported are amounts due that represent revenues earned or accrued in the applicable period. Types of receivables included in this classification relate to interest, loans receivable, and other miscellaneous receivables. Interest receivable on loans is recorded at the net recoverable amount by management policy. Loans receivable are recorded net of an allowance for uncollectible accounts as discussed in note 3.

H. Compensated Absences

Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 300 hours accrued vacation leave at termination. Accumulated vacation leave is recorded as an expense and a liability of those funds as the benefits accrue to the employees. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service.

I. Borrower's Deposit Liability Accounts

SELP holds reserve investments for certain borrowers in accordance with contractual obligations. All interest earned on these reserve accounts is credited to the borrower's account when received. Funds in the reserve account in excess of contractual requirements are remitted to the borrowers upon request.

J. Arbitrage Rebate Liability

Internal Revenue Code Section 148(f) requires issuers of tax-exempt bonds to rebate income from the investment of bond proceeds that exceeds limits established for each bond issue. These limits are based on the bond yield calculated for federal tax purposes for each bond issue and are subject to certain exceptions. Arbitrage rebate payments are due not later than 60 days after the end of the fifth anniversary of each bond issue and every five years thereafter in an amount equal to at least 90 percent of the calculated arbitrage liability. Final arbitrage rebate payments are due not later than 60 days after the final retirement of all bonds in an issue in an amount equal to 100 percent of the calculated arbitrage liability. SELP records arbitrage rebate as a reduction of investment revenue.

K. Operating Revenues and Expenses

Operating revenues include loan interest and fees on program loans as well as earnings on cash and any investments related to SELP's loan program. Administrative expenses and bond program related expenses are considered operating expenses. Nonoperating revenues and expenses include interest earned on cash and pension-related debt interest payments.

L. Bond Expenses

Bond issuance costs are expensed when incurred. Gains or losses on bond debt refunding's are deferred and amortized over the shorter of the new debt or the remaining life of the old debt. Bond discounts and premiums are amortized over the life of the bond based on interest, which closely approximates the effective-interest method.

NOTE 2. CASH AND CASH EQUIVALENTS

All SELP deposits are held in demand accounts with the State Treasurer and are classified as cash and cash equivalents. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council. The State Treasurer is the investment officer for the Oregon Investment Council and is responsible for the funds entrusted to the Oregon State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as would a prudent investor, exercising reasonable care, skill and caution.

The State Treasurer maintains the Oregon Short Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Investments in the OSTF are further governed by portfolio guidelines recommended by the Oregon Short Term Fund Board, with Oregon Investment Council approval, establishing diversification percentages and specifying the types and maturities of investments. The OSTF pool operates as a demand deposit account and earnings are allocated on a pro-rata basis on daily account balances. A separate financial report for the OSTF may be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896 or from the Treasury's website at [http://www.oregon.gov/treasury/divisions/investment/pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/divisions/investment/pages/Oregon-Short-Term-Fund-(OSTF).aspx).

The custodial credit risk for cash deposits is the risk that, in the event of a bank failure, the State's deposits may not be recovered, or the State will not be able to recover collateral securities that are in the possession of an outside party. The Department does not have a formal policy regarding custodial credit risk for deposits; however, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF. Balances that exceed the Federal Deposit Insurance (FDIC) amount of \$250,000 are covered by a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon State Treasury.

At June 30, 2023, the book balance of SELP cash and cash equivalents held by the Treasury was \$7,348,119. The unadjusted bank balance was \$7,348,716, all of which was held in demand accounts with the State Treasurer invested in the OSTF.

The following table itemizes cash balances by funds at June 30, 2023:

| | |
|-------------------------------|-------------------------|
| SELP Sinking Fund | |
| Principal & Interest | \$ 1,971,304 |
| Borrower Revenue Loss Reserve | 2,273,052 |
| Bond Debt Services | 3,089,921 |
| Program Admin | <u>13,842</u> |
| TOTAL | <u>\$ 7,348,119</u> |

Securities Lending: In accordance with State of Oregon investment policies, state agencies may participate in securities lending. SELP is involved in securities lending only with cash balances invested in the Oregon Short-Term Fund (OSTF). As of June 30, 2023, the amount of the fair value of all securities on loan from OSTF allocated to SELP’s Enterprise Funds was \$41,762. OSTF securities on loan in total included U.S. Treasury securities (12.44%), U.S. Agency securities (80.44%), and domestic fixed income securities (7.12%). The amount allocated to SELP’s Enterprise Funds of the fair value of all investments purchase with cash collateral received for those securities on loan was \$3,038. Additional information about the Oregon Short-Term Fund and securities lending can be found in the Oregon Short-Term Fund financial statements at [www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx).

NOTE 3. LOANS RECEIVABLE

The composition of the loans receivable portfolio includes component unit loans. The loan portfolio value and associated statewide concentration of credit risk at June 30, 2023 is as follows:

| Borrower Type | Number of Loans | Balance Outstanding |
|---|--------------------|-----------------------|
| Commercial and residential | 8 | \$ 7,539,971 |
| Cities, counties, school and special districts | 23 | 9,672,659 |
| Discretely presented component units (OSU, PSU, OIT, WOU, EOU, SOU & U of O) | 23 | 65,739,691 |
| Not-for-profit organizations | <u>1</u> | <u>40,341</u> |
| Total Loans Receivable | 55 | 82,992,662 |
| Component Unit loans | | (<u>65,739,691</u>) |
| Net credit risk exposure | | <u>\$ 17,252,971</u> |

SELP uses the allowance method to estimate uncollectible loans receivable. The allowance is periodically adjusted by management to accommodate changes in economic conditions, non-performing assets, historical loss experience, industry practice, risk rating assigned and other conditions that may affect the ultimate collectability of the loans. In fiscal year 2023 the allowance account was adjusted to reflect a change in collectability for several accounts. SELP management determined that the balance of the allowance account was sufficient to cover projected losses for the loan portfolio based on segmented risk category analysis. The current loss allowance associated with the loan portfolio represents approximately 1.0% of the gross loans receivable in 2023.

The following table details Net Loans Receivable as of June 30, 2023:

| | |
|--------------------------------------|----------------------|
| Loans Receivable | \$ 82,992,662 |
| Allowance for uncollectible accounts | <u>(951,001)</u> |
| Net Loans Receivable | <u>\$ 82,041,661</u> |

NOTE 4. BONDS PAYABLE AND DEBT SERVICE

General Obligation bonds are secured by the full faith and credit of the State. Bond proceeds are loaned to individual residents, businesses, nonprofit organizations, state agencies, school districts and local governments in Oregon for energy conservation, renewable resource energy, recycling and alternate fuels projects.

The following table provides a summary of bond transactions as presented on the Statement of Net Position for the fiscal year ended June 30, 2023:

| | |
|--------------------------|----------------------|
| Bonds Payable-beginning | \$ 94,910,000 |
| Bonds New | 0 |
| Bonds matured & refunded | <u>(10,625,000)</u> |
| Bonds Payable-ending | 84,285,000 |
| Premium on Bonds Payable | <u>3,211,320</u> |
| Net Bonds Payable | <u>\$ 87,496,320</u> |

The Department of Energy SELP program has defeased certain general obligation bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the liability for defeased debt is not included in the department’s financial statements. On June 30, 2023, no defeased debt is outstanding.

Debt Service Requirements to Maturity for General Obligation Bonds

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2023, for each of the next five fiscal years, and in five year increments thereafter:

| <u>Years Ending June 30</u> | <u>Bond Principal</u> | <u>Bond Interest</u> | <u>Total Debt Service</u> |
|-----------------------------|-----------------------|----------------------|---------------------------|
| 2024 | \$ 9,270,000 | \$ 2,479,622 | \$ 11,749,622 |
| 2025 | 7,865,000 | 2,122,735 | 9,987,735 |
| 2026 | 8,055,000 | 1,788,333 | 9,843,333 |
| 2027 | 8,260,000 | 1,431,955 | 9,691,955 |
| 2028 | 8,395,000 | 1,072,333 | 9,467,333 |
| 2029-2033 | 19,175,000 | 1,791,669 | 20,966,669 |
| 2034 | <u>1,355,000</u> | <u>49,513</u> | <u>1,404,513</u> |
| TOTALS | <u>\$62,375,000</u> | <u>\$10,736,157</u> | <u>\$ 73,111,157</u> |

The following table summarizes the outstanding bond issues by series as of June 30, 2023:

SCHEDULE OF DEBT ISSUED AND OUTSTANDING General Obligation Bonds

| Original Issue | | | | | | Bonds Outstanding | | | | |
|---------------------------------------|------------|----------------|-----------------------|--------|----------------------|----------------------|-----------|-----------------------|----------------------|---------------------|
| Series | Issue Date | Final Maturity | Coupon Interest Range | | Amount | Beginning | | | Ending Balance | Due Within One Year |
| | | | From | To | | Balance | Increases | Decreases | | |
| 2006 C | Nov-06 | Oct-22 | 5.160% | 5.510% | 3,750,000 | 350,000 | - | 350,000 | - | - |
| 2007 B | May-07 | Oct-23 | 4.000% | 4.500% | 10,570,000 | 800,000 | - | 400,000 | 400,000 | 400,000 |
| 2008 A | Apr-08 | Oct-23 | 4.600% | 5.000% | 18,000,000 | 480,000 | - | 245,000 | 235,000 | 235,000 |
| 2009 B | Nov-09 | Apr-29 | 3.000% | 5.000% | 16,430,000 | 1,195,000 | - | 585,000 | 610,000 | 610,000 |
| 2011B | Mar-11 | Jan-32 | 4.000% | 4.750% | 22,460,000 | 2,095,000 | - | 155,000 | 1,940,000 | 180,000 |
| 2012D | Mar-12 | Jan-27 | 2.000% | 3.000% | 4,435,000 | 1,785,000 | - | 325,000 | 1,460,000 | 335,000 |
| 2012E | Mar-12 | Jan-34 | 3.000% | 3.250% | 4,020,000 | 2,635,000 | - | 180,000 | 2,455,000 | 185,000 |
| 2012F | Mar-12 | Jan-28 | 0.350% | 3.600% | 2,520,000 | 1,100,000 | - | 160,000 | 940,000 | 165,000 |
| 2012G | Mar-12 | Jul-23 | 0.750% | 3.200% | 10,075,000 | 2,215,000 | - | 1,090,000 | 1,125,000 | 1,125,000 |
| 2012N | Aug-12 | Oct-32 | 2.500% | 3.000% | 11,910,000 | 6,605,000 | - | 585,000 | 6,020,000 | 600,000 |
| 2014E | Jun-14 | Apr-34 | 3.750% | 5.000% | 15,260,000 | 10,800,000 | - | 705,000 | 10,095,000 | 740,000 |
| 2014F | Jun-14 | Oct-29 | 0.400% | 3.900% | 2,080,000 | 1,220,000 | - | 135,000 | 1,085,000 | 140,000 |
| 2017E | Feb-17 | Apr-31 | 2.000% | 5.000% | 48,080,000 | 36,960,000 | - | 4,300,000 | 32,660,000 | 4,520,000 |
| 2017F | Feb-17 | Apr-29 | 4.250% | 4.750% | 16,740,000 | 3,610,000 | - | 260,000 | 3,350,000 | 35,000 |
| Total General Obligation Bonds issued | | | | | <u>\$186,330,000</u> | <u>\$ 71,850,000</u> | \$ | <u>- \$ 9,475,000</u> | <u>\$ 62,375,000</u> | <u>\$ 9,270,000</u> |

Debt Service Requirements to Maturity for Direct Borrowed General Obligation Bonds

The following table summarizes the amounts necessary to pay all future bonded debt principal and interest requirements as of June 30, 2023, for each of the next five fiscal years, and in five year increments thereafter:

| <u>Years Ending June 30</u> | <u>Bond Principal</u> | <u>Bond Interest</u> | <u>Total Debt Service</u> |
|-----------------------------|-----------------------|----------------------|---------------------------|
| 2024 | \$ 2,155,000 | \$ 291,481 | \$ 2,446,481 |
| 2025 | 2,285,000 | 261,742 | 2,546,742 |
| 2026 | 2,495,000 | 230,209 | 2,725,209 |
| 2027 | 1,580,000 | 195,778 | 1,775,778 |
| 2028 | 1,575,000 | 173,974 | 1,748,974 |
| 2029-2032 | <u>11,820,000</u> | <u>389,768</u> | <u>12,209,768</u> |
| TOTALS | <u>\$ 21,910,000</u> | <u>\$1,542,949</u> | <u>\$23,452,949</u> |

The following table summarizes the outstanding direct borrowing bond issues by series as of June 30, 2023:

SCHEDULE OF DIRECT BORROWING OF DEBT ISSUED AND OUTSTANDING Direct Borrowed General Obligation Bonds

| Original Issue | | | | | | Bonds Outstanding | | | | |
|--|------------|----------------|-----------------------|--------|----------------------|----------------------|-----------|----------------|----------------------|---------------------|
| Series | Issue Date | Final Maturity | Coupon Interest Range | | Amount | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
| 2020A | Apr-20 | Apr-32 | 1.190% | 1.190% | 5,725,000 | 5,725,000 | - | - | 5,725,000 | - |
| 2020B | Apr-20 | Apr-32 | 1.380% | 1.380% | 18,590,000 | 17,335,000 | - | 1,150,000 | 16,185,000 | 2,155,000 |
| Total Direct Borrowing General Obligation Bonds issued | | | | | <u>\$ 24,315,000</u> | <u>\$ 23,060,000</u> | \$ | - \$ 1,150,000 | <u>\$ 21,910,000</u> | <u>\$ 2,155,000</u> |

NOTE 5. CHANGES IN OTHER LONG TERM LIABILITIES

Long term liability activity for June 30, 2023 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Compensated Absences Payable | \$ 30,698 | \$ 534 | \$ - | \$ 31,232 | \$ 19,988 |
| Borrower’s Deposit Liability | 2,207,138 | 65,914 | - | 2,273,052 | - |
| OPEB Total Liability | 2,394 | - | 385 | 2,009 | - |
| Pension Related Debt | 53,269 | - | 11,519 | 41,750 | 8,209 |
| Net Pension Liability | <u>30,033</u> | <u>22,098</u> | <u>-</u> | <u>52,131</u> | <u>-</u> |
| TOTALS | <u>\$ 2,323,532</u> | <u>\$ 88,546</u> | <u>\$ 11,904</u> | <u>\$ 2,400,174</u> | <u>\$ 28,197</u> |

NOTE 6. EMPLOYEE RETIREMENT PLANS

The Oregon Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for SELP employees. PERS is administered by the Public Employees Retirement Board (Board), as required by Oregon Revised Statutes (ORS), Chapters 238 and 238A. PERS is a cost-sharing multiple-employer defined benefit pension plan. The Tier One/Tier Two Retirement Benefit Plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Oregon Public Service Retirement Plan (OPSRP), established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. The Individual Account Program (IAP) is a defined contribution plan. Beginning January 1, 2004, all member contributions are deposited into the member’s IAP account. The pension plans provide pension benefits, death benefits and disability benefits.

PERS issues a separate financial report that includes audited financial statements and required supplementary information. The report is available publicly and may be found at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-information.aspx>

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The rates in effect for the fiscal year ended June 30, 2023, were 21.03 percent for Tier One/Tier Two General Service members, 17.12 percent for OPSRP Pension Program General Service members and 6 percent for OPSRP IAP. The actual contributions equaled the contractually required contributions for the fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the State of Oregon and its component units reported a liability of \$4.0 billion for its proportionate share of the net pension liability. SELP’s allocated amount of the proportionate share of the net pension liability was \$52,131. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The State’s proportion of the net pension liability was based on a projection of the State’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2023, the State’s proportion was 26.2 percent. As part of the State of Oregon, SELP’s funds were allocated .00034046 percent of the State’s proportionate share in the plan.

For the year ended June 30, 2023, SELP recognized pension expense of \$18,197. At June 30, 2023, SELP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 5,575 | \$ 5,899 |
| Differences between expected and actual experience | 2,530 | 325 |
| Changes in Assumptions | 8,180 | 75 |
| Net difference between projected and actual earnings on investments | - | 9,320 |
| Subtotal | <u>16,285</u> | <u>15,619</u> |
| Net Deferred Outflows (Inflows) of Resources before contributions subsequent to the measurement date | -667 | |
| Contributions subsequent to the measurement date | - 549 | |
| Net Deferred Outflows (Inflows) of Resources | <u>\$ -1,216</u> | |

NOTE 7. OTHER POSTEMPLOYMENT BENEFIT PLANS

SELP employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefits (OPEB). Two OPEB plans are offered through the Public Employees Retirement System (PERS) and one OPEB plan offered by the Public Employees Benefit Board (PEBB). For additional information regarding the State of Oregon’s OPEB plans, refer to Note 14 of the State of Oregon’s Annual Comprehensive Financial Report for the year ended June 30, 2023 at <https://www.oregon.gov/das/Financial/Acctng/Pages/pub.aspx>.

As part of the State of Oregon, SELP's enterprise fund received an allocation of a percentage of the State's OPEB asset and/or OPEB liability and related deferrals of resources as seen on the face of the Statement of Net Position. SELP's actual employer contributions to PERS for its OPEB plans equaled the contractually required contributions for the fiscal year.

NOTE 8. RISK FINANCING

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. The Insurance Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; and employees for dishonesty. Faithful performance coverage is provided for key positions in state government that are required by law to be covered. Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For the State of Oregon, the amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

As part of a state agency, SELP participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide risk charges are based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium.

NOTE 9. INTERFUND TRANSACTIONS

Amounts reported as due to other funds at year end represent administrative costs due from SELP to other funds within the Department of Energy.

Oregon Department of Energy request general funds in their 2021 budget request for the 2021 to 2023 Biennium for SELP program to cover shortfall of Debt Service payments. For fiscal year 2023 that requested amount was \$1 million.

NOTE 10. LITIGATION, TROUBLED DEBT RESTRUCTURINGS AND DELINQUENCIES

During the ordinary course of business, SELP becomes involved in litigation regarding its lending activities. The program is represented in these actions by the Attorney General of the State of Oregon. SELP makes every reasonable effort to work with borrowers that experience financial difficulties making payments under existing loan agreements.

As of the end of fiscal year 2023, there is one SELP loan with a principal balance of \$11,113 in default. This loan has been turned over to the Department of Revenue for collection. SELP does not anticipate a loan loss on this credit.

There are no SELP loans in forbearance. When in forbearance, SELP agrees not to issue notices of default or commence foreclosure litigation to enforce security interests against a borrower. There were no material troubled debt restructurings.

OTHER REPORTS

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LaVonne Griffin-Valade Secretary of State
Cheryl Myers Deputy Secretary of State, Tribal Liaison
Kip Memmott Audits Director

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Honorable Tina Kotek, Governor of Oregon
Janine Benner, Director, Oregon Department of Energy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Small Scale Energy Loan Program (SELP), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the SELP’s basic financial statements, and have issued our report thereon dated March 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon Department of Energy’s (department) internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the department’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Secretary of State, Audits Division

State of Oregon

March 12, 2024